RATES AND ALLOWANCES

Personal allowances for 2017/18

The 2017/18 tax year started on 6 April 2017. For 2017/18, the personal allowance is increased to £11,500. As in previous years, the allowance is reduced by £1 for every £2 by which income exceeds £100,000. This means that those with income of £123,000 or more will not receive a personal allowance for 2017/18.

The marriage allowance allows spouses and civil partners to transfer 10% of their personal allowance to their spouse/civil partner as long as the recipient is not a higher or additional rate taxpayer. For 2017/18 the marriage allowance is £1,150. Claiming the marriage allowance is worthwhile where it would otherwise be wasted. The allowance is worth £230 per couple for 2017/18.

The marriage allowance is not the same as the married couple's allowance, which is available to married couples and civil partners where at least one partner was born before 6 April 1935. The allowance is set at £8,445 for 2017/18, but is reduced by £1 for every £2 by which income exceeds £28,000 until the allowance is reduced to £3,260.

The savings allowance enables individuals to receive tax-free savings income in addition to that in tax-free savings vehicles such as ISAs. For 2017/18 the allowance is set at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers. Those paying tax at the additional rate do not receive a savings allowance.

The taxation of dividends was reformed from 6 April 2016. Since that date all taxpayers have been entitled to a dividend allowance regardless of the rate at which they pay tax. For 2017/18 the allowance is unchanged at £5,000. However, it was announced at the time of the Spring 2017 Budget that it is to be reduced to £2,000 from 6 April 2018 (not yet enacted).

Income tax rates and bands

For 2017/18 the basic rate of income tax remains at 20%, the higher rate at 40% and the additional rate at 45%.

For the UK excluding Scotland the basic rate band is set at £33,500. A separate basic rate band applies in Scotland to non-dividend and non-savings income, set at £31,500 for 2017/18. However, to complicate matters, the basic rate band of £33,500 applying to the rest of the UK also applies to the savings and dividend income of Scottish taxpayers.

For 2017/18, the additional rate of tax applies to taxable income in excess of £150,000.

Dividends are taxed at 7.5% to the extent that they fall in the basic rate band, 32.5% to the extent that they fall within the higher rate band and at 38.1% to the extent that they fall in the additional rate band. The first £5,000 of dividend income is tax-free.

Corporation tax

The rate of corporation tax is set at 19% for the financial year 2017, which commenced on 1 April 2017.

Capital gains tax

The annual exempt amount is increased to £11,300 for 2017/18. However, the rates are unchanged, remaining at 10% to the extent that total income and gains do not exceed the basic rate band. For Scottish taxpayers, this is £33,500 as capital gains tax is not devolved. To the extent that total income and gains exceed the basic rate band, capital gains tax is charged at the rate of 20% for 2017/18. Higher rates of 18% and 28% respectively apply to gains on residential property.

To ensure that allowances are not wasted and best use is made of the lower tax bands, it is advisable to review your tax affairs with your adviser and to plan ahead.

TRADING AND PROPERTY ALLOWANCES

New tax-free allowances for trading and property income are available for 2017/18 and later tax years. The allowances, each set at £1,000, mean that trading and/or property income no longer needs to be reported to HMRC where the income is less than £1,000 in the tax year. Where a person has both trading income and property income, he will be entitled to both allowances.

Where trading income or property income is more than £1,000, the profit or loss can be worked out in the usual way or the £1,000 allowance can be deducted rather than deducting actual expenses.

If you have income from trading or property discuss with your tax adviser whether it is beneficial for you to claim the allowance.

VAT FLAT RATE SCHEME

Limited cost traders

The VAT flat rate scheme aims to simplify the tax affairs of smaller businesses by allowing them to work out the VAT that they pay over to HMRC by applying a flat rate percentage to their VAT-inclusive turnover, rather than working out the difference between the VAT that they have charged and the VAT that they have incurred.

Prior to 1 April 2017 the flat rate percentage depended only on the sector in which the business operated. From 1 April onwards it is also necessary to work out whether the business is a 'limited cost trader'. This is a business that spends less than 2% of its VAT inclusive turnover on relevant goods or one that spends more than 2% of its turnover but less than £1,000 per year on such goods.

For periods of less than one year, the £1,000 figure is proportionately reduced and thus equates to £250 a quarter.

Relevant goods exclude capital expenditure, food or drink for consumption by the business or its employees, vehicles, vehicle parts and fuel (unless the business operates in the transport sector), goods for hire or resale unless that is the business's main business activity, goods for disposal, such as promotional items, and all services.
A business that meets the definition of a limited cost trader must use a VAT flat rate percentage of 16.5% rather than that for its business sector.

If you use the VAT flat rate scheme, it is advisable to discuss with your tax adviser whether these changes affect you. This is likely to be the case if you supply labour-only services. Your adviser will be able to discuss whether it remains beneficial to stay within the scheme. Businesses making taxable supplies in excess of the VAT registration threshold, set at £85,000 from 1 April 2017, must be registered for VAT.

MAKING TAX DIGITAL

Making Tax Digital (MTD) is an initiative by the Government to turn the UK into one of the most digitally advanced tax administrations. The proposals are far reaching and will ultimately affect all taxpayers.

Under the MTD reforms, businesses will be required to keep digital records and report digitally to HMRC each quarter. MTD is being introduced gradually and will apply from April 2018 to unincorporated businesses and landlords with turnover in excess of the VAT registration threshold – set at £85,000 from 1 April 2017. This is less than a year away and does not allow very long to get systems in place to meet the requirements which MTD will impose.

Unincorporated businesses and landlords should discuss what MTD means for them with their tax advisers sooner rather than later to ensure that they are ready by April 2018.

CASH BASIS

The cash basis is a simplified accounting basis under which profit is worked out by reference to cash in and cash out rather than by reference to income earned and expenses incurred in the period (as under the accruals basis). The cash basis has been optional since 2013 for businesses with turnover under the VAT registration threshold.

As part of the Making Tax Digital reforms the cash basis threshold has been increased to £150,000 from 6 April 2017, extending its availability. It will also be the default basis for unincorporated landlords with income from property of £150,000 a year or less. Changes have also been made to the way in which capital expenditure is treated for the purposes of the cash basis to make the rules easier to operate.

If you are self-employed or running an unincorporated business and your turnover is less than £150,000 and you do not currently use the cash basis, discuss with your tax adviser whether this may be for you. Unincorporated landlords with rental income of £150,000 or less should also discuss what the move to the cash means for their business.

SALARY SACRIFICE ARRANGEMENTS - NEW VALUATION RULES

Salary sacrifice arrangements used to be a cost efficient way of allowing employees to enjoy tax-exempt benefits without passing the cost of providing those benefits on to the employer. However, changes in the rules which came into effect from 6 April 2017 mean that salary sacrifice and flexible benefit schemes are no longer as attractive as they once were.

Under the new rules, unless the benefit is one of a limited range of protected benefits, new valuation rules apply the effect of which is that the benefit of any associated exemption is lost where the benefit is provided under a flexible benefit or salary sacrifice arrangement or where a cash alternative is offered instead. Where the new valuation rules apply, the employee is taxed by reference to the salary forgone or the cash alternative offered where this is higher than the cash equivalent calculated under normal rules.

The new valuation rules do not apply to:

- pension savings;
- employer-provided pension advice;
- childcare and childcare vouchers;
- cycles and cyclists’ safety equipment under cycle to work schemes; and
- ultra-low emission cars.

Any associated exemptions remain available where benefits on this list are made available through a salary sacrifice arrangement or where a cash alternative is offered instead.

Transitional rules apply where an arrangement was in place at 5 April 2017 which delay the start date of the new rules.

If you offer salary sacrifice arrangements or cash alternatives to your employees, you may wish to discuss with your tax adviser whether these remain tax efficient.

PENSION ALLOWANCES FOR 2017/18

Pension savings can be tax-efficient as it is possible to make tax-relieved contributions to registered pension schemes up to the higher of 100% of earnings and the available annual allowance. The annual allowance is set at £40,000 for 2017/18. To the extent that the annual allowance is unused, it can be carried forward for up to three years.

However, the allowance is reduced where a person has income excluding pension contributions of more than £110,000 and income inclusive of pension contributions (including any employer contributions) of more than £150,000. Where this is the case, the allowance is reduced by £1 for every £2 by which income exceeds the £150,000 limit, subject to a maximum reduction of £30,000. This means that if your income is more than £210,000 for 2017/18, you will receive only the minimum annual allowance for that year of £10,000.

Since April 2015 it has been possible to access pension savings in a defined contribution scheme on reaching age 55. However, in certain situations where pension savings have been flexibly accessed, a reduced allowance – the money purchase annual allowance – applies. This was set at £10,000 for 2016/17, but is reduced to £4,000 for 2017/18.

The lifetime allowance places an overall cap on total tax-relieved pension savings. This remains at £1 million for 2017/18.

It is advisable to plan for retirement and to discuss planned pensions savings with your tax adviser to make the most of the reliefs on offer.